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INSPECTOR GENERAL

June 23, 2013

Rep. Darrell Issa, Chairman
House Committee on Oversight and Government Reform
2157 Rayburn House Office Building
Washington, DC

Dear Chairman Issa:

Thank you for your June 17th letter asking about the status of my recommendations concerning the Denali Commission. I appreciate your courtesy in including me, since I'm the smallest Office of Inspector General (OIG) at this point (1 FTE, that is, myself with no employees).

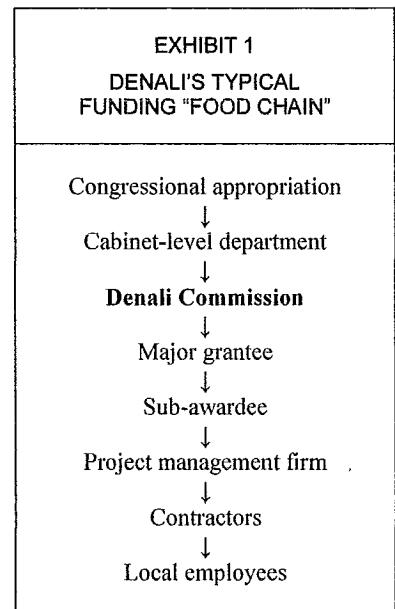
I've been reviewing the evolution of this interesting little agency for its entire lifespan, in reports that reflect my days in academia, the state auditor's office, and this statutory Office of Inspector General (OIG).

The Subcommittee on Energy and Water Development has now forwarded its FY 2014 appropriations bill to the House Committee on Appropriations.¹ This bill includes \$7.4 million of funding for the Denali Commission (Denali).

However, based upon what I've seen over the past decade, I have concluded that Denali is a congressional experiment that hasn't worked out in practice. I recommend that Congress put its money elsewhere.

I have similarly written OMB of my recommendation that the President's budget no longer include funding for this agency.

My candid analysis, as detailed below, is provided consistent with my responsibility under the Inspector General Act and Silver Book to review "proposed legislation."² My role is, of course, performed as a public watchdog — not as the agency's cheerleader, apologist, or lobbyist.



*Denali's problematic paradigm:
millions for "micro-settlements"*

One downfall for the Denali experiment has been its unrealistic promise to do too much for too many. The agency's original strategic plan idealistically aspired that "*[a]ll Alaska, no matter how isolated, will have the physical infrastructure necessary to protect health and safety and to support self-sustaining economic development.*"³

Denali's paradigm in practice has been to build three basic facilities in every "bush" settlement: (1) a powerhouse, (2) a tank farm, and (3) a medical clinic. Denali inherited lists of settlements that wanted such facilities, and the agency has responded by "wholesaling" its appropriations to several major grantees that do the actual construction. Denali measures its success in terms of how many buildings it can complete in how many places,⁴ before the money finally runs out.

This idealism has been challenged by the logistics of serving tiny, often unincorporated settlements that are far from any road system. Given that roughly half of the state's communities have fewer than 300 people, many locations have an inherently limited capacity to support their own facilities in the years after Denali has given them the key.

A "free" powerhouse, tank farm, or clinic isn't really "free" if a tiny place can't fund the fuel, upkeep, and staffing to make use of it. Denali assumes that the community will receive other government subsidies in the decades ahead to operate what Denali builds today.

Exhibits 2, 3, and 4 list tiny settlements (≤ 250 pop.) that have received facilities as Denali has continued to work its way through the lists of need and grant applications. All of this information was obtained from Denali's own online public database of its projects (www.denali.gov) and the State's online public database of settlement populations.

One of the Denali's most difficult and uncomfortable issues has been the size of community that warrants public support (versus self-support). While public lore may abstractly decry government projects in the middle of "nowhere," the choices are very real for families that must go without what most of America takes for granted in the 21st Century.

EXHIBIT 2	
SMALL SETTLEMENTS WITH DENALI-FUNDED POWERHOUSES AND TANK FARMS	
	<i>Pop.</i>
Nikolski	16
Red Devil	19
Alatna	27
Lime Village	27
Elfin Cove	39
False Pass	39
Karluk	41
Pedro Bay	42
Stony River	42
Nelson Lagoon	46
Igiugig	52
Takotna	53
Atka	59
Clarks Point	59
Stevens Village	67
Chalkyitsik	68
Chenega Bay	68
Pilot Point	68
Pelican	82
Sleetmute	84
Anvik	85
Akhiok	87
Eagle	87
Hughes	87
Levelock	88
Chignik	91
Larsen Bay	93
Nikolai	94
Koyukuk	95
Whitestone	99
Allakaket	106
Egegik	106
Perryville	112
Diomede	121
Port Heiden	123
Chitina	139
Deering	142
Tenakee Springs	152
Port Graham	168
Kokhanok	170
Golovin	173
Arctic Village	178
Ouzinkie	178
Venetie	181
Ruby	185
Kaltag	186
White Mountain	188
Port Lions	201
Aleknagik	204
Old Harbor	206
Mekoryuk	210
Koliganek	223
Tanana	233
Seldovia	242

Estimated 2012 population
per State of Alaska at
community database at
<http://commerce.alaska.gov>

For example, Denali's largest program has been rural electrification (powerhouses and tank farms). Most of this funding has been sent on to two grantees: (1) the Alaska Energy Authority (a state agency)⁵ and (2) the Alaska Village Electric Cooperative (a utility nonprofit).⁶ Both serve very small remote settlements and only a fraction of the state's population. For instance, the electric cooperative serves around 50 of the most challenging locations that together represent less than 4% of Alaska's population.

On the other hand, OMB and Congress may be able to help more people by redirecting Denali's appropriation to the regional commissions that serve multiple states — states that are far more densely populated than Alaska.

For instance, Denali's annual appropriation might be put to better use at the new Southeast Crescent Regional Commission that serves seven southern states.⁷ This "newborn" could potentially assist its states as they develop economic linkages with a realigned Caribbean in the years ahead. This would be similar to the federal relationships of assistance that have developed in past decades with the U.S. possessions and new island nations in the Pacific.⁸

The persistent question of Denali's "value added"

OMB, CBO, and I have over the years questioned the need for Denali as a pass-through layer and a "regional" commission that serves only the single state of Alaska.⁹ In fact, my recent reports have recommended that Congress sunset Denali as a federal agency and convert it into a nonfederal entity under local law.¹⁰ Congress would then transfer Denali's assets into state ownership (like the Alaska Railroad¹¹) or into rebirth as a nonprofit corporation (an NGO like the Alaska Native Tribal Health Consortium¹²).

Denali's typical funding chain is shown in Exhibit 1 on page 1.

Beneficiaries sometimes challenge why their funding from Congress needs to be reduced by the administrative costs of running the Denali Commission. While beneficiaries understand that they must please Denali with simple reporting to get their money, those complaining don't perceive that they are getting significant additional services.

EXHIBIT 3	
SMALL SETTLEMENTS WITH DENALI-FUNDED MEDICAL CLINICS	
	<i>Pop.</i>
Alatna	27
False Pass	39
Igiugig	52
Clark's Point	59
Chalkyitsik	68
Pilot Point	68
Kasaan	69
Shageluk	69
Twin Hills	83
Sleetmute	84
Akhiok	87
Beaver	87
Hughes	87
Levelock	88
Klukwan	93
Chistochina	95
Egegik	106
Perryville	112
Ekwok	118
Tetlin	118
Chuathbaluk	138
Chitina	139
Kobuk	141
Deering	142
Nondalton	169
Kokhanok	170
Tyonek	171
Golovin	173
Newhalen	178
Grayling	178
Ouzinkie	178
Coffman Cove	181
Holy Cross	181
Nunam Iqua	185
Kaltag	186
White Mountain	188
Port Lions	201
Aleknagik	204
Nunam Iqua	206
Old Harbor	206
Mekoryuk	210
Gakona	214
Koliganok	223
Minto	223
Teller	250

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Their question is a good one that I haven't been able to answer to my own satisfaction in a decade of studying the agency.

For instance, for powerhouses and tank farms, Denali receives transfers from the USDA Rural Utilities Service (RUS)¹³ and then sends the money on to the state agency and the utility cooperative noted above. Both of these recipients are far more technically sophisticated than Denali's tiny staff (≈ 15 FTEs). Given the small number of projects involved,¹⁴ both are capable of directly dealing with RUS without Denali as the "middleman."

A further example of this fragmented approach is the funding that Denali sends the State for the "emerging energy technology fund," a creation of the Alaska Legislature.¹⁵ Though Denali has one seat on the State's panel that scores the grant applications, this use already exists as a state program independently of Denali.

When Congress sends Denali the funding to build bush clinics, the appropriation flows to Denali through the Department of Health and Human Services. Denali usually sends it on to (1) the state health department, (2) regional health corporations that operate hospitals, or (3) the Alaska Native Tribal Health Consortium (a nonprofit created by Congress).¹⁶ Again, these recipients are far more technically sophisticated than Denali's tiny staff. And, again, these recipients are quite capable of directly dealing with the cabinet-level funder without Denali as a broker.

Congress has sometimes funded a training program at Denali, who has usually sent this money on to the state labor department or the University of Alaska.¹⁷ Once again, the State is capable of directly receiving this money without Denali as an intermediary.

And sometimes Congress has funded a transportation program at Denali through the USDOT appropriation.¹⁸ The projects have then been selected by a board appointed by Alaska's governor, a board that could directly be hosted by the State rather than Denali. For half of the selected projects,¹⁹ Denali has sent its funding on to the State or another federal agency to do the actual construction (such as the Corps of Engineers or FHWA). This circular delivery system signals a further question as to what Denali's layer adds to the process.

Displacement of nonfederal funders

A state economist reported that Alaska ranks first in the nation in its per capita receipt of federal grants, and fourth in federal contracts.²⁰

EXHIBIT 4	
SMALL SETTLEMENTS WITH DENALI-FUNDED ROADS AND DOCKS	
	<u>Pop.</u>
Elfin Cove	39
False Pass	39
Igiugig	52
Takotna	53
Atka	59
Clarks Point	59
Port Alexander	66
Stevens Village	67
Chenega Bay	68
Pilot Point	68
Northway	77
Pelican	82
Tatitlek	83
Akhiok	87
Eagle	87
Cold Bay	98
Pitkas Point	102
Perryville	112
Circle	113
Manley Hot Springs	116
Diomede	121
Gulkana	122
Chuathbaluk	138
Kobuk	141
Nondalton	169
Kokhanok	170
Coffman Cove	181
Nunam Iqua	185
Old Harbor	206
Cantwell	207
Mekoryuk	210
Gakona	214
Seldovia	242

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However, a year ago Congress expanded Denali's flexibility to tap funding from nonfederal sources — such as the State, charitable foundations, and Alaska Native corporations.²¹ Though my reports have recommended that Congress add this flexibility,²² Denali has so far made little progress in diversifying its funding beyond the annual appropriations that it assumes OMB and Congress will continue to support.

At this point, I recommend that Congress no longer send Denali an annual "base" appropriation. This will give Denali an incentive to leave the federal nest and chart its own course as a non-federal entity.

This will also give the State of Alaska an incentive to find and fund its own solutions for the residents of "bush" Alaska — as it should. Alaska has an oil-based savings account whose earnings help fund the state government.²³ Alaska has no personal income tax and no state sales tax.

In contrast to taxation, Alaska pays every resident an annual "dividend" that has so far ranged up to \$2,069.²⁴ And this is significant to Denali's projects, since these dividend payments are considered politically "untouchable" as a potential match to Denali grants in even the smallest of unincorporated settlements. I have written before that national support for Denali might be more encouraged by projects in "micro-settlements" that are perceived as local "barn-raisings," rather than as entitlements or seasonal cash injections.²⁵

Reports that a federal experiment hasn't worked out in practice are difficult, and unpopular, ones for any inspector general to write. The resistance of Denali's beneficiaries to these reports, while understandable, reflects the classic scenario of shooting the messenger, tackling the referee, or suing the pathologist who has to convey the news one would prefer not to hear.

Fans and foes of the late founding senator (who I never met) may perceive the death of Denali as one of the last of his legacies.²⁶ However, OMB would seem authorized under 31 USC 6505 and 40 USC 15304(a)(5) to detail Denali's experienced staff as experts to help the new regional commissions with their startups. Many hard lessons were learned from Denali's costly experiment, lessons that other regional commissions shouldn't have to rediscover at public expense.

Sincerely,



Mike Marsh, CPA, CFE, MPA, Esq.
Inspector General
Denali Commission

¹ See 159 Congressional Record D594 (June 18, 2013).

² See Inspector General Act sec. 4(a)(2) and CIGIE, *Quality Standards for Federal Offices of Inspector General* (the "Silver Book"), chapter IX.

³ *Denali Commission Five Year Strategic Plan (2005-2009)*, page 3 (emphasis added).

⁴ See the Denali Commission's *Budget Justification* for FY 2011, FY 2012, FY 2013, and FY 2014.

⁵ See www.akenergyauthority.org.

⁶ See www.avec.org.

⁷ In the 2008 Farm Bill, Congress created the Southeast Crescent Regional Commission. See 40 USC 15301(a), 15731.

⁸ Guam, American Samoa, the Northern Mariana Islands, and the three multi-island former Pacific territories (freely associated states) receive congressional support through the Department of the Interior and other federal agencies.

⁹ See Denali OIG, *Semiannual Report to the Congress* (May 2010), pages 35-37, 40-42, at www.oig.denali.gov; “Inspector General’s Perspective on Management and Performance Challenges Facing the Denali Commission” in the *2009 Performance and Accountability Report*; OMB’s recommended “Terminations, Reductions, and Savings,” pages 2, 20, 21, 33 in the *Budget of the U.S. Government, Fiscal Year 2010* at www.budget.gov; OMB, *Program Assessment of Denali Commission*, at www.expectmore.gov; Congressional Budget Office, *Budget Options*, vol. 2 (August 2009), sec. 450-5, page 106, at www.cbo.gov.

¹⁰ See Denali OIG, *Semiannual Report to the Congress* (May 2012), page 5, and Denali OIG, *Semiannual Report to the Congress* (May 2010), pages 9-10. Both are published at www.oig.denali.gov.

¹¹ See 45 USC 1203-1204.

¹² Congress initiated the Alaska Native Tribal Health Consortium in section 325 of P.L. 105-83, and the entity then organized as a nonprofit corporation under Alaska law.

¹³ Per 7 USC 918a(a)(2), Congress authorizes the USDA Rural Utilities Service to transfer funding to the Denali Commission “*to acquire, construct, extend, upgrade, and otherwise improve energy generation, transmission, or distribution facilities*” in communities with high energy costs. While such transfers lie within USDA’s discretion, Denali has historically received them as a substantial source of its funding.

¹⁴ See the Denali Commission’s *Budget Justification* for FY 2011, FY 2012, FY 2013, and FY 2014.

¹⁵ See Alaska Statutes 42.45.375, which establishes the State’s “emerging energy technology fund.”

¹⁶ Per Denali’s own online public database of its projects, Denali’s grants for 346 out of its 376 “primary care” projects (92%) went to these three types of grantees. See www.denali.gov (accessed June 22, 2013).

¹⁷ Per Denali’s own online public database of its projects, Denali’s grants for 274 out of its 309 training projects (89%) went to these two grantees. See www.denali.gov (accessed June 22, 2013).

¹⁸ Congress amended Denali’s enabling act to authorize transportation projects based upon selection by a panel of experts appointed by the state’s governor. See Denali Commission Act sec. 309, as amended by P.L. 109-59 sec. 1960, 119 Stat. 1144, 1516.

¹⁹ Per Denali’s own online public database of its projects, Denali’s funding for 119 out of its 235 transportation projects (51%) was sent on to these recipients. See www.denali.gov (accessed June 22, 2013).

²⁰ See Neal Fried, “Federal Spending in Alaska,” *Alaska Economic Trends* (Feb. 2012), pages 4-8, available online at <http://labor.state.ak.us/trends/feb12.pdf>.

²¹ See section 1520 of P.L. 112-141.

²² See Denali OIG, *Semiannual Report to the Congress* (May 2012), pages 1-2, 5-7, and Denali OIG, *Semiannual Report to the Congress* (Nov. 2011), page 17. Both are published at www.oig.denali.gov.

²³ The Alaska Permanent Fund — see www.apfc.org.

²⁴ See <http://pfd.alaska.gov/DivisionInfo/SummaryApplicationsPayments>.

²⁵ See Denali OIG, *Semiannual Report to the Congress* (May 2007), page 6, at www.oig.denali.gov.

²⁶ Denali's *Annual Report* for 2010 states, at page 3, that "[i]n 1998 Senator Ted Stevens focused national attention on the immense infrastructure and economic challenges faced by rural Alaskan communities when he authored the Denali Commission Act. . ."